Louisiana House of Representatives
House Legislative Services
Fiscal Division
225/342-8568

Dominique Duval-Diop, Budget Analyst
Select Committee on Fiscal Affairs

December 11, 2000

Issue Brief on the TANF Program and Unobligated TANF Funds

ABSTRACT: Since its implementation in 1997, welfare reform has caused a significant decline in the number of recipients and the resources devoted to cash assistance. These trends, as well as the flexibility afforded by the block grant structure, make TANF funds a significant source of revenue to support programs aimed at the needy in a time when state general funds are constrained.

What is TANF?

Commonly called welfare, the federal Temporary Assistance to Needy Families (TANF) block grant is the result of welfare reform passed by Congress in 1996. Each state is allowed significant latitude in designing their welfare programs. Louisiana's public assistance program, called FITAP (Family Independence Temporary Assistance Program), the state version of TANF, provides time-limited cash grants to needy families. The work component of the program, Family Independence Work Program (FIND Work) provides job preparation, work and support services. Both are administered by the Department of Social Services (DSS).

What are the key characteristics of the program?

Time-limited. Unlike the old welfare system, TANF is not an entitlement. Recipients are subject to a federal lifetime limit of 5 years of cash assistance and must fulfill certain requirements. Louisiana's more restrictive law limits cash assistance to only twenty-four months in a sixty-month period. Exemptions are allowed for incapacity such as a disability. None of these restrictions applies, however, to programs that provide non-cash assistance.

Link with Medicaid severed. Another important difference between the old and new welfare programs is the severing of the automatic link with Medicaid. Because the eligibility requirements do not have to be the same, welfare recipients no longer automatically qualify for Medicaid benefits.

More flexible. The new block grant structure awards states a fixed grant amount for each year during the 5-year period. States can use the funds for a variety of programs, over and beyond the typical public assistance programs, cash grants and limited work training, that characterized the old system.

Eligibility. Those who meet the income standards and asset requirements are eligible. To remain eligible, recipients must fulfill other requirements like work participation.

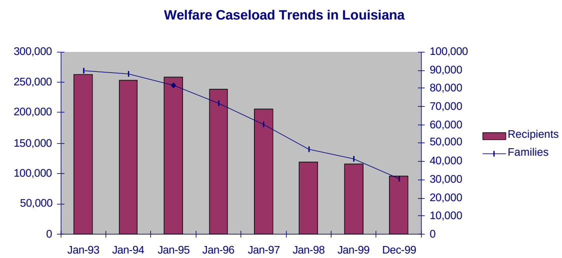
Program benefits. Assistance-related benefits include a monthly grant. In the current fiscal year, the average monthly grant for a family of three in Louisiana is $207, or 18% of the federal poverty level.

Who are welfare recipients?

DSS reports that 2% of Louisiana families receive welfare. The average TANF family consists of 1 female and 2 children. 77% of recipients are children, nearly all of whom live in households headed by females. The average age of female heads-of-household is 34 years. Approximately 86% of recipients are African-American.

What is the impact of welfare reform and TANF?

National studies show that welfare caseloads have fallen faster than the poverty rate and the poor have less income. Similar trends are present in LA. For example, as shown in the chart below, the LA welfare caseload dropped by 66% between 1993 and 1999. In the same period, the poverty rate decreased by only 27% to a level of 19%.



A 2-year panel evaluation study of welfare reform revealed that fewer people who were on welfare are working and their incomes are still very low. In 1998, 32% of survey respondents (all of whom were on welfare) were employed. In 1999, 39% were employed, however only 41% of respondents were still on welfare. Additionally, the average annual income of 1998 respondents was $8,679 or 66% of the federal poverty level. In 1999, the average annual income increased slightly to $9,444 but was still only 68% of the federal poverty level.

Sources: Department of Health and Human Services, Administration for Children and Families. "A Guide to Funding Services for Children and Families Through the TANF Program." and August 2000 statistical report; Department of Social Services, Office of Family Support. "The Facts About Welfare and Food Stamps in Louisiana." March 2000; McElveen, J. "The Impact of Welfare Reform on Louisiana's Families: Year Two Panel Study Report, Southern University of New Orleans, August 2000.

Who pays for welfare?

Both the federal government and the state of Louisiana share the cost of providing welfare to the poor. In LA, the basic yearly state grant is over $164 million and is based on 1994 caseloads. Louisiana also receives a supplemental grant totaling almost $13 million and has received incentive grants. The state's FFY 2000 grant totaled over $180 million. In addition to the federal TANF funds, the state must meet a "maintenance-of-effort" requirement of approximately $55 million per year.

How can the federal TANF and state funds be used?

For one of the 4 purposes of TANF. These are: (1) to provide assistance to needy families; (2) to end dependence of needy families by promoting work and marriage; (3) to reduce out-of-wedlock pregnancies; and (4) to encourage the formation and maintenance of 2-parent families. The first two purposes require the state to set income and/or resource standards for eligibility determination. Such standards can vary for different groups of needy individuals. The last two purposes are not limited to needy families.

To enhance child care and social services. States can transfer up to 30% of the TANF grant to the child care program and/or the social services block grant, which supports child abuse and neglect programs. LA has elected to transfer the full 30% to child care since 1998.

Surplus funds are restricted to basic assistance uses. Unobligated or "surplus" TANF funds can only be spent on programs that fit the definition of "assistance", that is providing for ongoing basic needs. "Non-assistance" programs are not subject to the spending limitations and requirements—including work, time limits, child support assignment, and data reporting—that apply to assistance programs.

What kinds of non-assistance programs can TANF fund?

Here are a few examples of non-assistance programs implemented in states across the country.

Individual Development Accounts: Allow welfare recipients and low-income individuals to establish special savings accounts for the purchase of a home, educational advancement, or to start a business. Indiana is using state MOE dollars to fund the establishment of 800 accounts and will provide $3 for every $1 deposited by recipients. Iowa and Oklahoma are using welfare dollars to fund IDA's as well.

Services for Low-Income Fathers: Help low-income fathers pay child support and reconnect with their children through job training, employment counseling, life skills management and peer support. Arizona, California, Florida, Iowa, North Carolina, Ohio, Wisconsin and West Virginia have targeted welfare dollars on services for low-income fathers.

Employer Stipends: Grant employers who hire welfare recipients a monetary sum of $500 per month for six months if recipient stays employed. After 12 months, an employer can collect $1000. Utah is using TANF dollars to fund this program.

Teenage pregnancy prevention: Develops a strategy focused on reducing teenage pregnancy. California, Georgia, Iowa, Louisiana, Minnesota, North Carolina, Oklahoma and Wisconsin are all using welfare dollars to fund programs. Minnesota and Oklahoma are also funding abstinence education initiatives.

Post Employment Training: Arizona offers vocational and occupational training for ex-recipients who are employed to help them acquire more valuable job skills, allowing them to retain their jobs or obtain better jobs.

Housing Vouchers: Provide a supplement to families to pay for the cost of housing. New Mexico provides a $100 subsidy to families that do not receive federal housing assistance. Connecticut provides similar benefits.

Tuition vouchers: Give selected welfare recipients an opportunity to further their education by attending a community college or technical college. Arizona appropriated $1.9 million to pay for recipients to attend vocational schools targeted on high wage jobs. Michigan appropriated $4 million to pay for high wage skills training for former recipients or working recipients.

How is LA spending its TANF dollars?

As of June 30, 2000, the state had 1999 and 2000 block grant funds available, **a total of $189 million of which was unobligated**. For the 1999 grant, the state spent approximately $47 million of the total $121 million in available funds, leaving a balance of over $73 million. Of the $47 million expended, $33 million went to non-assistance programs, of which 27% was for administration. $15 million was spent on cash assistance. Total expenditures for the 2000 grant were $9.4 million, 50% of which was for administration and 25% for information systems. All 2000 funds were spent on non-assistance. The unobligated balance in 2000 funds was over $116 million.

Pros and Cons of unobligated TANF funds

Pro: Since the block grant formula is based on higher caseloads, the amount of federal resources available to states per recipient increased dramatically. Conversely, the disadvantage is if caseloads should rise, the amount of federal funds would not increase as under the previous system. Under the block grant structure, the state shares proportionately in any increases or declines in spending. This provides an incentive for states to keep "reserve" funds.

Con: Holding large reserves makes a state a target for future funding cuts when the program comes up for reauthorization in 2002. It also prevents people who could use help from receiving needed services.

Sources: Reichert, D. and Tweedie, J. "Programs and Services Funded with TANF and MOE." NCSL, Sept. 1999; U.S. DHHS. ACF-196 forms.